

IMF Resident Representative in Ukraine Gösta Ljungman: It is time for the Government to get ready for the launch of the land market

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IMF Resident Representative in Ukraine Gösta Ljungman informed that the date of the next visit of the IMF mission to Ukraine had not been determined. A few months ago, the Government was upbeat about receiving the fifth tranche from the International Monetary Fund by the end of the year. Ukraine has never progressed so far in the cooperation with the International Monetary Fund as it is now under the EFF Program. But recently the optimism has shrunk away and uncertainties have grown. After all, neither the date of the IMF mission visit for the fourth program review, nor the amount of tranche has been determined yet.

In public statements, the parties avoid specifics, saying only that the negotiations are ongoing. There are many controversial issues. Contrary to the agreements enshrined in the third program review, the Government urges the IMF to change the methodology for adjusting the cost of natural gas for the households in order to avoid the rise in price. In addition, the Government once again postpones the start of privatization and continues "independent activities" with regards to the pension reform.

The Resident Representative of the International Monetary Fund in Ukraine Gösta Ljungman spoke about the pace of the reforms and how the negotiations with the Ukrainian authorities progress in his interview to RBK-Ukraine.

- Mr. Ljungman, you have been the IMF Resident Representative in Ukraine for almost three months already. However, Ukraine is not a new country for you, is it?

- From 2009 to 2012, I together with the team worked on two IMF cooperation programs with Ukraine. Mostly, I was dealing with the public finance issues.

- You are familiar with the situation in the country at that moment and you can compare it with what is happening now. How has the country changed between now and then?

- First of all, I would like to say that it is nice to come back to Ukraine after a while. For me, the biggest difference is what Ukraine has achieved over the past three years. Speaking about achievements, I mean the reduction of budget deficit, efforts to stabilize the financial system, reforms of the energy sector, harmonization of the cost of natural gas for the households with the price of imported natural gas, the transition to inflation targeting and flexible exchange rate, resolution of the insolvent banks, efforts to combat corruption. The next

task now is to continue these reforms and to ensure good conditions for sustainable economic growth.

- Your colleagues from other financial organizations publicly told the Minister of Finance Oleksandr Danylyuk that after Ukraine issued Eurobonds, they fear that reforms will slow down. Do you have any such fears?

- I think it is now important to focus on the implementation of reforms that we have already agreed with the Ukrainian Government. It is essential to adopt a comprehensive pension reform as soon as possible, to accelerate privatization and to continue the fight against corruption by creating the Anti-Corruption Court. It is also important to ensure fiscal and energy sector policies in line with the "structural benchmarks" that are approved by the program.

- The date of the next visit of the IMF mission to Ukraine for the fourth program review is still unknown. Although, earlier the government officials said that the visit was planned at the end of September. Why was the visit postponed? Or maybe the date is defined, but it is not officially reported?

- The date of the IMF mission for the fourth program review is not defined at the moment. We are in constant contact with the authorities. When we see positive grounds for completing the program review, then we will define the date.

- There were expectations that the date of the mission would be determined following the visit of David Lipton, First Deputy Managing Director of the IMF to Ukraine. Was this question discussed during his stay in Kyiv?

- The main purpose of Mr. Lipton's visit was to convey the message about the importance of continuing the reforms. During the visit, neither the details of the reforms, nor the algorithms of the program review were discussed.

- The mission should, among other things, confirm Ukraine's compliance with the commitments made by our country to the IMF following the third program review. One of the commitments is to adjust the natural gas price for the households depending on the market situation. Prime Minister Volodymyr Groysman has publicly stated that this year the Government does not intend to raise the price of natural gas for household consumers. What are the consequences of such Government actions in the context of continued cooperation with the IMF?

- I want to emphasize once again: the priority issues for the next program review are pension reform, privatization and anti-corruption conditions. There are also important conditions in fiscal and energy policies. This is the basis for review ...

- And the natural gas price?

- Yes, this is part of the conditions. This is an important element of the program.

- According to the information received by RBK-Ukraine, the Government is considering a variant when Ukrgazvydobuvannya and gas importers can

sell natural gas directly to the obligees and the district heating companies without participation of Naftogaz. Could you confirm that the IMF is familiar with this proposal? What was the IMF reaction?

- I do not want to comment on this issue. Neither would I like to comment on the process of negotiations with the Government. I am sorry, but I think that it would not look correct right now.

- Recently, when negotiations between Ukraine and the IMF have come to a deadlock, people have been increasingly comparing the situation with 2013. You have to remember when Prime Minister Mykola Azarov said that the Government suspended the IMF program, because the IMF required rigid and socially unpopular steps: increase of the cost of natural gas and increase of the retirement age. Does the current situation with natural gas prices remind you the course of events in 2013?

- I think that one should not write off the fact that over the past three years there has been done more regarding the reforms than during all years of Ukraine's independence. And this deserves respect. It is now important to pursue reforms, to create the basis for further growth. We see the goal for the near future - to adopt a pension reform that will make the system of public finances more stable. We also consider it necessary to accelerate privatization, which will create positive dynamics for economic growth. And it is also extremely important to continue to fight corruption at all levels. It is entirely anticipated that when a country announces the implementation of ambitious reforms, discussions about the best way to carry them out are inevitable. But during these discussions and the search for the best options, one should not forget the main thing, i.e. that reforms are necessary and that they need to be implemented today.

- Yesterday (the interview was held on Friday, September 22, ed.) the Parliament was supposed to adopt the pension reform. But this did not happen. Is the IMF concerned about this fact?

- The current pension system is unsustainable. It needs to be reformed. The reform that we support should lead to the reduction of the pension system deficit and to extension of the period of pension contributions payment. The result should be the payment of adequate pensions to Ukrainians now and in the future. And this is our approach in supporting this reform.

- Ms. Satu Kahkonen, your colleague from the World Bank, confirmed today that the World Bank together with the IMF sent a letter to the Government with comments on the draft pension reform. What exactly are the comments about? Are you surprised that substantial changes were introduced to the draft between the readings, and these changes are not supported by the creditors?

- We have long been holding a dialogue with the Government on all the elements of the program. Sometimes we state our point of view on a particular

issue in the letters, as in this case. But these documents are not for public use. It will be incorrect if I comment on this letter.

- Earlier this year, the Minister of Social Policy disclosed the details of the negotiations with the IMF and publicly stated that the IMF demanded that Ukraine should increase the retirement age. While the Government proposed to make a more rigid link to the insurance record. On this occasion, as far as I know, the Minister and your predecessor, Jerome Vacher, had a non-public conflict. Were the negotiations really difficult?

- The proposals regarding the new pension system envisage flexible range of retirement age. The difference between the old system and the new one is that people will be asked to contribute to the pension system over a longer period of time before they get the right to a full pension. And in this regard, Ukraine will be able to stabilize the already existing unsustainable pension system, as well as lay the foundations of the system with criteria that are more identical to pension systems in other countries, including the EU countries. The situation when people who contribute to the pension system over certain period of time receive full pension payments is fair. That is, those who pay contributions longer will receive more. And again, the pension reform is essential for stabilizing the current system and for ensuring that the next generation of Ukrainians may rely on the adequate amount of pension payments.

- You mentioned the importance of privatization. The memorandum states that the State should sell Odessa port plant in 2017 and initiate the sale of Tsentrenerg and Turboatom. But yesterday, the State Property Fund informed that the sale of OPP was pushed back to spring. Do you have an impression that the Government once again postpones the sale of large assets and that it is against the previously achieved agreements?

- It is very important that the privatization process is transparent, open to all those willing to participate, and is based on market procedures, and the Government's course to privatization requires strengthening. Moreover, privatization can be called successful when the State sells its assets at the highest price, and the buyer, who is a representative of a private business, is motivated enough to turn the company into a profitable business, which will create jobs and will contribute to the growth of the economy. And now it is also very important for the Government to make it clear and finally define the list of enterprises that will be subject to privatization in the near future.

- How important is it to attract foreign investors during the privatization?

- I will return to the point that it is important to strengthen the privatization process. In this regard, it is extremely important that it would be open and transparent to the extent that any interested person can participate in the privatization, regardless of whether he is a Ukrainian investor or a foreign one. A market-based and open approach is the best way to evaluate and sell state-owned assets. And the government should take care of strengthening of the corporate governance of state-owned enterprises.

- Financial donors in Ukraine speak about the importance of land reform. Currently, this issue was not removed from the agenda, but the deadline of the reform was moved once again, as Ukrainian politicians spoke publicly. But, probably, the IMF will recommend to the Government a specific mechanism and reform plan?

- First of all, I want to emphasize that the land reform is an important and indispensable element of the IMF program. And the main objective of this reform is to strengthen and stabilize the country's agrarian sector. We understand that time is needed for effective and optimal implementation of the land reform. We also understand that it is necessary to reach consensus on all parameters before its implementation. That is why the deadlines for implementing the land reform are still being discussed. But at the same time, we believe that it is time that the government should start preparatory work before launching the land market.

- The Government proposes in the course of the reform to ban the sale of land to foreigners and legal entities, as well as to restrict land transactions of 200 hectares. To what extent can this be an acceptable option?

- The most effective variant of the land reform is the one that contains as few different types of restrictions for the land market as possible. This market should be attractive for investments that ensure its growth and development. Therefore, any restrictions should be temporary, and their introduction should be based on solid economic grounds. Terms and conditions, the achievement of which will result in the lifting of land market restrictions, shall be made very clear.

- Ukraine is actively discussing the idea of creating the Anti-Corruption Court. Proponents of this idea insist that such a court is necessary as Ukraine has one of the highest levels of corruption in Europe, while its opponents believe that there is no such institution anywhere in the world and, therefore, we do not need it. There is an idea to create anti-corruption chambers instead of the court, which is strongly objected by the head of the National Anti-Corruption Bureau Artem Sytnyk. How does the IMF see a solution to this issue?

- More efforts are required to fight corruption in Ukraine. We are inspired by the work of the NABU in this area. We consider it logical that the next step that needs to be taken after the creation of anti-corruption agencies dealing with corruption investigations is to create the Anti-Corruption Court. This court should have a high level of independence and competence, and judges who have passed through the filter of special selection shall have the right to consider and make immediate, independent, and legally perfect decisions in cases related to corruption.

- For a long time NABU has not been able to obtain more extensive powers, for example, for wiretapping. If we follow the "structural benchmarks" of the memorandum, the law on strengthening the powers of the bureau must

have already been adopted. But this did not happen. Is this question being discussed now, is it still relevant?

- Once again I want to emphasize that the fight against corruption should remain the major priority for the country. And in this regard, it is necessary to give the anti-corruption agencies a mandate sufficient for them to carry out their work and conduct the investigation as effectively as possible. This is what we discuss during the program review and this is what we fully support in the program.

- Recently, at the meeting with business, President Petro Poroshenko and Prime Minister Volodymyr Groysman made it clear that there would be no tax on distributed capital in 2018 instead of the corporate profit tax. The IMF is allegedly against this. Is this really the case, is the IMF against it? Why?

- An extremely important aspect of the taxation system is that it shall cover the State obligations to the population on expenditures. This is one of the first fundamental principles of the tax system. Another no less important principle of the tax policy is that it should be transparent, fair and shall not contradict economic growth. Therefore, any initiatives to change the tax system should not counter-balance the economic efficiency of taxes and should not undermine the economic stability. It is this approach that the IMF will use for considering any proposals related to tax policy.

- In 2015, when the Government proposed to reduce the USC to 22%, the IMF recommended that USC should not be lower than 28%. The Cabinet of Ministers did it in their own way and got a hole in the Pension Fund budget, which led to the increase in the amount of the budget subsidy for pension payments. This time, will the Government listen to the IMF with regards to tax issues? This is a continuation of the question on the tax on distributed capital.

- (laughs). This sounds like a question to Prime Minister Groysman. I think it is better to address it to him.

- Have you already looked through the Draft State Budget 2018?

- We are in constant dialogue with the Government on how to maintain the stability of public finances now and ensure their sustainability in the future. As for the State Budget. Currently, Ukraine is at the initial stage of the budget process, and I consider it premature to make any statements on this subject. But our expectations are that the State Budget for the next year will be adopted taking into account the agreements reached between Ukraine and the IMF within the framework of the program.

- How do you generally estimate the reform of the State Fiscal Service? Previously, was the issue of re-subordination of the SFS directly to the Ministry of Finance discussed? Does the IMF support this move?

- It is clear that the SFS reform is a very important aspect. And this is a rather ambitious reform, which will require significant efforts. Its implementation should begin immediately. The focus of this reform is on modernization of processes and procedures of tax administration, making them more transparent, and ending the argument on the SFS subordination. Any manifestations of corruption in the SFS must be eliminated. We have a dialogue with the Ukrainian Government that the work of the SFS should be more effective, the service itself should be more accountable, and all necessary measures should be taken to increase the level of public trust to the work of the tax administration.

- The mass media often ask IMF representatives when and how big will the next tranche for Ukraine be. But it's rarely possible to hear the answer. I will ask a little differently. Let's simulate two situations. What can Ukraine expect from the IMF by the end of the year, if everything goes well with reforms and all previous agreements are fulfilled? And what will happen if the Government breaks the agreement?

- All I can say is that now we concentrate our attention on the future program review. And the very important points for the review include pension reform, privatization and anticorruption court. We also believe that the energy sector should work effectively.

- Technical question. How long does the program review take, starting with the approval of date of the mission to the meeting of the IMF Board of Directors?

- An average of one and a half or two months is required for the review.

- No IMF program for Ukraine over the past 20 years has ever been fully implemented. Why did this happen: inability to implement reform or unwillingness of the political elite to take unpopular steps? Will we come to the finish this time or will we fall out of the race as before?

- I believe it is not constructive to try to extrapolate the historical moments to the present-day realities. I think it's counterproductive. As far as Ukraine is concerned, it is impressive how much has already been done over a relatively short period of time, and one should talk about how to consolidate these positive results and ensure their development.

- The EFF program ends in March 2019. Recently, the Minister of Finance Oleksandr Danylyuk said that he hoped that this would be the last program, after which Ukraine would be able to develop on its own. Do you share such expectations?

- The goal of our program is to strengthen and stabilize the economy. This is the most important condition for cooperation with the IMF. In the course of the program, the economy should reach such level of stability that Ukraine could stand on its feet and continue its further development independently, to carry out further reforms without the IMF support. We see, based on the results of the

recent years, that Ukraine has potential for economic growth. And we should try to focus on how to achieve this main goal of the program.

- The last question. It has been already several months that Valeriya Gontaryeva does not govern the National Bank. But President Poroshenko has not yet decided on the candidacy of the new Governor of the NBU. Is this a matter of concern to the IMF?

- First of all, I believe we must admit that in all respects Valeriya Gontaryeva has done an impressive job in the banking sector, both in terms of monetary policy change and in strengthening the banking system. This work should be continued by an independent manager who will head the National Bank and ensure the continuity of the National Bank's success in implementing these reforms. Clearness with the head of the central bank is very important for ensuring the stability and predictability of the economic policy.